



RECEIVED

JUL 26 1996

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

DOCKET FILE COPY ORIGINAL

July 26, 1996

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M St., N.W.  
Washington, D.C. 20036

Re: CC Docket No. 96-98; Implementation of the Local  
Competition Provisions in the Telecommunications Act of 1996

Dear Mr. Caton:

Attached is a copy of a letter sent today to the Commissioners in the above matter, and to members of the Commission's staff as indicated.

Yours truly,

Copies rec'd  
021



Association for Local Telecommunications Services

RECEIVED

JUL 26 1996

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

July 26, 1996

Hon. Reed E. Hundt, Chairman  
Federal Communications Commission  
1919 M St., N.W.  
Washington, D.C. 20554

Hon. James H. Quello  
Federal Communications Commission  
1919 M St., N.W.  
Washington, D.C. 20554

Hon. Susan Ness  
Federal Communications Commission  
1919 M St., N.W.  
Washington, D.C. 20554

Hon. Rachelle B. Chong  
Federal Communications Commission  
1919 M St., N.W.  
Washington, D.C. 20554

Re: CC Docket No. 96-98; Implementation of the Local  
Competition Provisions in the Telecommunications Act of 1996

Dear Commissioners:

We are enclosing a copy of Wednesday's Washington Research Group report entitled "Upcoming FCC Rules Big Trouble for CAPs." We obviously disagree with certain aspects of the analysis -- for example, our business will continue to grow in accordance with our business plans even if the Commission were to act as WRG predicts, and we vehemently disagree that IXC local competition via rebranding is the only way local competition can be put in place quickly. However, we do agree strongly that a "strong tacit bias toward resale" would have the effect of "devaluing alternative local facilities investment." This would pointlessly slow the introduction of true local competition and the benefits it would provide for consumers, such as lower prices, more advanced services and higher quality.

The facilities-based industry supports the prompt implementation of local competition through the issuance of strong national guidelines. But nothing in the current record would support the Commission's issuance of a specific resale discount percentage. Furthermore, undue reliance on resale to accelerate local competition completely disregards the Act's emphasis on effective widespread facility-based competition. An unfounded nationwide resale discount percentage would frustrate the Act's goals by harming the very companies currently trying to advance facilities-based local competition.

Federal Communications Commission

July 26, 1996

Page 2

**We respectfully request that the Commission help implement the multiple network competitive environment envisioned by the Act, an environment which is critical to the "information highway" goals of the Administration, by maintaining a measured approach to all forms of competition and avoiding any "tilt" as described in the attached analysis.**

Yours truly,

A handwritten signature in black ink, appearing to read "Heather Burnett Gold". The signature is fluid and cursive, with the first name "Heather" being more prominent.

Heather Burnett Gold  
President

cc: L. Atlas  
W. Caton  
J. Farrell  
R. Keeney  
R. Metzger  
R. Pepper  
J. Schlichting  
R. Welch



## The Washington Research Group

A Division of Lynch, Jones & Ryan, Inc.  
1000 Thomas Jefferson St. NW, Suite 606  
Washington, DC 20007  
Tel (202) 298-6226 Fax (202) 298-6146 Trading (800) 872-3557

## Telecom/Cable Bulletin

— Scott Cleland

July 24, 1996

### Upcoming FCC Rules Big Trouble For CAPs

**Summary:** WRG is changing our strategic outlook for the Competitive Access Providers (CAPs) from positive to negative because of the local competition strategy WRG expects the FCC to employ in implementing the Telecom Act.

WRG cautions investors that upcoming FCC rules could: eventually eliminate the CAPs' regulatorily-favored niche, squeeze the CAPs' current subsidy arbitrage spread on which their current business is based, slow their growth potential considerably, impede their facility investment plans, and diminish any potential acquisition premium they may enjoy. The CAPs affected are: MFS (MFST) Intermedia (ICIX), Teleport (TCGI), Brooks Fiber, Intelcom Group (ICG) and any privately-held CAPs intending to go public.

**Upcoming FCC Rules Negative For CAPs:** It is now clear to WRG that the FCC's interconnection rules expected in early August will 1) have a strong tacit bias toward resale over promoting facilities-based competition; and 2) allow long distance carriers to buy unbundled local loop elements and assemble them as a complete package without having to pay access charges; and 3) assume access charge reform by January 1997. (WRG expects the FCC to promote resale pricing guidelines which in the end result in effective average discounts approximating 22 percent for wholesale resale and roughly approximating 30-35 percent for unbundled resale.)

Because the Telecom Act is either ambiguous or silent on these matters, these FCC decisions fall into the "grey area" of FCC regulatory flexibility. Unfortunately for the CAPs these FCC decisions have unambiguous negative repercussions for the CAPs.

**Law Forces FCC to be Expedient:** While the FCC has no desire to hurt the CAPs because the FCC for all practical purposes "birthed and nursed" the CAP industry from infancy with protective regulations over the years, the new regulatory reality created by the Telecom Act requires the FCC to try to rapidly promote local competition nationally for residences and businesses.

It is becoming increasingly obvious to WRG that FCC has tacitly pinned its hopes for rapid nationwide local competition on AT&T and MCI's ability to resell ("rebrand") local services. The FCC appears to have shrewdly concluded that: 1) much of the local

loop is indeed a natural monopoly for now; 2) neither the CAPs nor the cable industry has the financial or operational wherewithal for national residential and business competition; and 3) while it's not a good option to have to count on a long distance "rebrand" strategy working, it's the best option available within the legal constraints of the Telecom Act.

**FCC "Knee-capping" the CAPs' Business Model:** By changing the rules of the local competition game so dramatically mid-game, the FCC is effectively cutting off the CAPs business story at the knees.

#### A strong national resale emphasis:

- devalues alternative local facilities investment by making it unnecessary for an aspiring local entrant;
- encourages AT&T and MCI to go around the CAPs and deal directly with the ubiquitous telcos rather than going through the tiny CAPs and paying their additional toll; and
- turns the CAPs, in other words, into unnecessary "middlemen" whose profit on top of the telcos' cost and profit further squeezes the already tight resellers' margin (which WRG estimates will be on average 22-35 percent at best);

**Access charge bypass and reform:** (and ultimately Universal Service subsidy reform making subsidies more explicit and theoretically competitively neutral):

- undermines much of the original business case of the CAPs, which is predicated on the current subsidy arbitrage spread, thus forcing them to find new profitable revenue streams;
- Makes "cream skimming" much harder because the cream will be going away eventually and many much bigger competitors will be vying to skim what's left; and
- ends the CAPs' Universal Service subsidy "free ride" because the CAPs, like all carriers, will have to pay their fair share of the subsidy according to Section 254 of the new law. \*\*\*



WRG is a division of Lynch, Jones & Ryan, Inc., member NYSE and other principal exchanges (212) 243-3137, equities trading (800) 872-3557. Information contained herein is based on data obtained from recognized statistical services, issuer reports or communications, or other sources believed to be reliable. However, such information has not been verified by us, and we do not make any representations as to its accuracy or completeness. Any statements non-factual in nature constitute only current opinions, subject to change. Lynch, Jones & Ryan, Inc., its principals, employees or their families may have positions in securities referred to herein, and may, as principal or agent, buy or sell such securities. Neither the information, nor any opinion expressed, shall be construed to be, or constitute an offer to sell or a solicitation of an offer to buy any securities mentioned herein. The firm (or persons related thereto) may perform investment